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ATTORNEYS FOR OFFICIAL COMMITTEE OF UNSECURED
CREDITORS

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF CALIFORNIA

IN RE:

PHAGE BIOTECHNOLOGY
CORPORATION,
A DELAWARE CORPORATION

DEBTOR.

CASE No. 08-09859-LA11

CHAPTER 11

OFFICIAL COMMITTEE OF UNSECURED
CREDITORS' RESERVATION OF RIGHTS AND
LIMITED OBJECTION TO THE UNITED
STATES TRUSTEE'S MOTION TO DISMISS OR
CONVERT THE CASE TO ONE UNDER
CHAPTER 7

DATE: MARCH 4, 2010
TIME: 2:00 P.M.
DEPT: 2, ROOM 118
JUDGE: HON. LOUISE D. ADLER

The Official Committee of Unsecured Creditors ("Committee") of the above-captioned debtor, Phage Biotechnology Corporation ("Phage" or "Debtor"), by and through its attorneys undersigned, hereby submits the following reservation of rights and limited objection ("Objection") to the United States Trustee's ("UST") motion to dismiss or convert the case to one under Chapter 7 ("UST's Motion").

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1 Throughout the Debtor's bankruptcy case, the Committee has supported the
2 Debtor's efforts to raise capital to fund a plan of reorganization for the benefit of all
3 creditors. Unfortunately, the Debtor has informed the Committee that its efforts to raise
4 long term capital have been unsuccessful and the UST's Motion necessitated action by
5 the Debtor to avoid conversion to a Chapter 7 liquidation. As set forth in the Debtor's
6 Opposition to the United States Trustee's Motion to Dismiss or Convert the Case to One
7 Under Chapter 7 ("Debtor's Opposition") and the Debtor's Motion for Order (1)
8 Approving Overbid Procedures and Break-Up Fee in Connection with Proposed Sale of
9 Substantially All Assets of the Estate, and (2) Setting Hearing on Motion for Sale of
10 Substantially All Assets of the Estate ("Bidding Procedures Motion"), the Debtor has
11 negotiated a sale of substantially all of its assets to an entity owned by the postpetition
12 lenders ("DIP Lenders"). As consideration for the Debtor's assets, the buyer will cancel
13 or assume the entire amount of postpetition financing and transfer 10% of the stock of the
14 buyer to the Debtor.

15 The Committee is concerned that the proposed sale does not provide adequate
16 consideration for the Debtor's assets and that the proposed bidding procedures will have
17 a chilling effect on bidding. Nonetheless, the Committee believes that a sale to the DIP
18 Lenders in Chapter 11 will likely result in a greater recovery for all creditors than a
19 liquidation in Chapter 7. In an effort to maximize the recovery for all creditors, the
20 Committee has engaged the DIP Lenders in substantive negotiations regarding the
21 proposed sale. The Committee is hopeful that its negotiations will result in more
22 favorable sale terms and less chilling bidding procedures. Further, the Committee
23 believes that its negotiations will result in a sale that will be more favorable for the estate
24 than a liquidation under Chapter 7. Therefore, the Committee objects to the UST's
25 Motion.

26 The Committee intends to file a more substantive response to the Bidding
27 Procedures Motion on or before March 2, 2010 outlining the modifications, if any, to the
28 sale terms and the bidding procedures after its negotiations with the DIP Lenders.

1 If, however, the Committee is unable to negotiate more favorable terms with the
2 DIP Lenders, the Committee reserves the right to withdraw this Objection and support the
3 UST's Motion.

4
5 DATE: FEBRUARY 25, 2010

FOLEY & LARDNER LLP
VICTOR A. VILAPLANA
MATTHEW J. RIOPELLE

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9 BY: /S/ VICTOR A. VILAPLANA

10 ATTORNEYS FOR OFFICIAL COMMITTEE OF
11 UNSECURED CREDITORS OF PHAGE
12 BIOTECHNOLOGY CORPORATION
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UNSECURED CREDITORS

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF CALIFORNIA

IN RE:

CASE No. 08-09859-LA11

PHAGE BIOTECHNOLOGY CORPORATION,
A DELAWARE CORPORATION

PROOF OF SERVICE

DEBTOR

DATE: NA
TIME: NA
DEPT.: NA

I, Raechelle Hurst, am employed in the city and county of San Diego, State of California. My business address is Foley & Lardner LLP, 402 West Broadway, Suite 2100, San Diego, CA 92101. I am over the age of 18 and not a party to the within action.

On February 25, 2010, I caused to be served the following:

Official Committee of Unsecured Creditors' Reservation of Rights and Limited Objection to the United States Trustee's Motion to Dismiss or Convert the Case to One Under Chapter 7

in this action by placing true copies thereof enclosed in sealed envelopes addressed as follows:

SEE ATTACHED LIST

.. X (BY MAIL) I am readily familiar with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. Postal Service on that same day with postage thereon fully prepaid at San Diego, California, in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing in affidavit.

1 X (BY ELECTRONIC MAIL "E-MAIL" VIA PDF/ADOBE) I caused such documents to be sent
2 via e-mail to the above-listed names (as noted) and e-mail addresses and received confirmation
3 electronic receipts indicating that this document was successfully transmitted to the parties named
on the service list. (*Service by e-mail to those parties on the attached list with e-mail addresses
and where noted.*)

4 X (BY NOTICE OF ELECTRONIC FILING) I caused to be served the above-described
5 document(s) by means of electronic transmission of the Notice of Electronic Filing through the
Court's transmission facilities, for parties and/or counsel who are registered ECF Users.

6 .. (BY FAX) Pursuant to agreement of counsel and California Rules of Court, Rule 2006, I caused
7 to be transmitted the above-described document by facsimile machine to the referenced facsimile
8 number(s). The facsimile machine I used complied with Rule 2003 and no error was reported by
the machine. Pursuant to Rule 2006, I caused the machine to print a transmission record of the
9 transmission, a copy of which is attached to this declaration. (*Service by Facsimile Transmission
to those parties on the attached List with fax numbers indicated.*)

10 .. (BY PERSONAL SERVICE) I caused each such envelope to be delivered by hand to the
11 addressee(s) above by _____ (name and address of attorney service). The
actual Declaration of Personal Service shall be filed upon its receipt within the applicable
statutory deadline.

12 .. (BY OVERNIGHT DELIVERY) I placed each such sealed envelope, to be collected at above-
13 stated address, following ordinary business practices. I am familiar with the practice of Foley &
14 Lardner LLP for collection and processing of overnight packages, said practice being that in the
ordinary course of business, overnight packages are picked up by a representative of that
company to be sent that same day.

15 I declare under penalty of perjury under the laws of the United States of America that I am
16 employed in the office of a member of the bar of this court at whose direction the service was made.

17 Executed on February 25, 2010, at San Diego, California.

18 _____
19 /s/ RAEHELLE HURST
RAEHELLE HURST

<p>Phage Biotechnology Corporation Attn: Loren King, CFO 1635 Village Center Circle, Suite 260 Las Vegas, NV 89134 Email: lorenking2002@yahoo.com</p>	<p>Attorney for Debtor Charles Liu Marc J. Winthrop Winthrop Couchot 660 Newport Center Dr., 4th Fl Newport Beach, CA 92660 Email: pj@winthropcouchot.com cliu@winthropcouchot.com</p>
<p>Office of the U.S. Trustee David Ortiz, Esq. 402 W. Broadway, Suite 600 San Diego, CA 92101 Email: david.a.ortiz@usdoj.gov Email: ustp.region15@usdoj.gov</p>	<p>International Legal Consultants Solomon Ward Seidenwurm & Smith, LLP Michael D. Breslauer, Esq. 401 "B" Street, #1200 San Diego, CA 92101 mbreslauer@swsslaw.com</p>
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